

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John A. Settles, Washington County Judge/Executive
Honorable Tommy Bartley, Washington County Sheriff
Members of the Washington County Fiscal Court

The enclosed report prepared by Kapp & Company PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Washington County, Kentucky, for the year ended December 31, 2002.

We engaged Kapp & Company PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company PLLC evaluated the Washington County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WASHINGTON COUNTY SHERIFF

**For The Year Ended
December 31, 2002**

Kapp & Company, PLLC, has completed the Washington County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$4,346 from the prior calendar year, resulting in excess fees of \$5,409 as of December 31, 2002. Receipts increased by \$46,718 from the prior year and disbursements increased by \$51,604.

Report Comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were uninsured and uncollateralized by bank securities or bonds in the amount of \$1,699,918.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Washington County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
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Honorable John A. Settles, Washington County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
September 24, 2003

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State:

Grants	\$ 388	
Kentucky Law Enforcement Foundation Program Fund	10,920	
Finance and Administration Cabinet	11,687	
Cabinet For Human Resources	<u>36</u>	\$ 23,031

Circuit Court Clerk:

Sheriff Security Service	\$ 4,990	
Fines and Fees Collected	<u>3,650</u>	8,640

Fiscal Court	52,344
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County Clerk - Delinquent Taxes	544
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Commission On Taxes Collected	102,138
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Fees Collected For Services:

Auto Inspections	\$ 4,040	
Accident and Police Reports	169	
Serving Papers	9,720	
Carrying Concealed Deadly Weapon Permits	1,890	
Transporting Prisoners	<u>700</u>	16,519

Other:

Dog Tags	\$ 175	
Add-On Fees	10,370	
Reimbursements	5,954	
Pictures and Copies	74	
Miscellaneous		
Insurance Reimbursements	8,913	
Other	<u>24</u>	25,510

Interest Earned	653
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Borrowed Money:

State Advancement	\$ 55,000	
Borrowed Money	<u>8,000</u>	63,000

Total Receipts		<u>\$ 292,379</u>
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The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 96,943

Part-Time Salaries 1,100

Employee Benefits-

Employer's Share Social Security 11,370

Employer's Share Retirement 1,556

Training Fringe Benefit (HB810) 3,588

Materials and Supplies-

Office Materials and Supplies 679

Auto Expense-

Maintenance and Repairs 421

Other Charges-

Dues 625

Postage 2,901

Insurance

Carrying Concealed Deadly Weapon Permits 1,230

Dog Tags 153

Miscellaneous

Storage 420

Travel - Extradition 3,377

Other 420

Capital Outlay-

Office Equipment 5,698

Vehicles 29,006 \$ 159,487

Debt Service:

State Advancement \$ 55,000

Borrowed Money 8,000 63,000

Total Disbursements

\$ 222,487

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Net Receipts		\$	69,892
Less: Statutory Maximum	\$	62,259	
Less: Training Incentive Benefit		<u>2,224</u>	<u>64,483</u>
Excess Fees Due County for 2002		\$	5,409
Payments to County Treasurer			<u>5,409</u>
Balance Due at Completion of Audit		<u>\$</u>	<u>0</u>

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

WASHINGTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of November 12, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,699,918 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 12, 2002.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	210,000
Uncollateralized and uninsured	<u>1,699,918</u>
Total	<u><u>\$ 2,009,918</u></u>

Note 4. Drug Seizure Fund

During calendar year 2001, the Washington County Sheriff's office opened and maintained a Drug Seizure Fund. Receipts for this fund are from the court ordered payments related to drug cases. These funds are reserved for items directly related to law enforcement and are not available for excess fee purposes. Receipts to this fund for 2002 were \$6,745, disbursements totaled \$15,064, leaving a balance of \$9,556 as of December 31, 2002. Items expended were directly related to law enforcement in compliance with KRS.218A.

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COMMENTS AND RECOMMENDATIONS

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement

On November 12, 2002, \$1,699,918 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times as well as provide a written agreement securing the Sheriff's interest in the collateral.

County Sheriff's Response:

The agreement with the bank states the amount to be pledged. The agreement was signed by the bank President and included in their Board Meeting Minutes. The audit revealed the bank did not secure the collateral agreed to in the Collateral Securities Agreement. The bank failed to pledge what was agreed

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

County Sheriff's Response:

None

PRIOR YEAR:

The comment pertaining to providing a pledge of sufficient collateral to protect deposits was also reported in the prior year audit report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Washington County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Washington County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Comment and Recommendation section.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
September 24, 2003

